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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 23, 1993

EX PARTE

Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: MCI Telecommunications Corporation's response to request for
information in Docket No. 92-77, Billed Party Preference

MCI is providing the following material at the request of Gary Phillips and Mark Nadel of the Policy and Planning Division. The focus of this attachment is MCI's position on a COMPTTEL study of billed party preference.

If you have any questions, please do not hesitate to call me directly at (202) 887-2731.

Respectfully,

Michael Hydock
MCI Telecommunications Corporation
Federal Regulatory

cc: Gary Phillips
Mark Nadel

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MCI REBUTTAL TO THE COMPTTEL BPP STUDY

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

The COMPTTEL study maintains that the total market for 0+ calling is \$9.8 billion in revenue, with 3.3 billion calls. However, COMPTTEL argues that in many instances, the billed caller is actually reaching their preferred operator service provider (OSP). According to COMPTTEL, only .633 billion calls would be re-routed to the OSP of choice under a BPP scenario.

To reach this conclusion, COMPTTEL deducts 2.08 Billion that it claims represents calls where the presubscribed and preferred carrier are identical. Also excluded are .33 billion in dial-around calls where the caller uses an access code to reach an OSP of choice, and .257 billion that were transferred to an IXC of choice based on LEC operator screening.

In sum, COMPTTEL argues that BPP would only benefit 633 million or 19 percent of all calls.

Other disadvantages of BPP alleged by COMPTTEL include: increased cost of access for hospitality and institution traffic, and the need to interface with both the LEC and IXC operator (double operator problem).

COMPTTEL claims that LEC costs will be in the range of \$950 million in capital and \$175 million in annual operating costs for the 7 RBOCs and GTE. COMPTTEL estimates that industry totals will be \$2 billion for all LECs and IXCs. COMPTTEL estimates that annual ratemaking costs are between \$400 to \$ 625 million, and the cost per benefitted call under COMPTTEL's definition is 63 to 99 cents per call.

COMPTTEL admits that the public pays over \$500 million in higher than otherwise required rates to fund commission payments paid by OSPs to have payphones pre-subscribed to them. However, COMPTTEL argues that: the FCC will grant compensation for BPP dial-around at a rate of 35-50 cents per call; hotels will institute surcharges on 0+ traffic to replace their commissions; and, institutions will require tax payer funds to make up for lost commissions.

MCI REBUTTAL

COMPTTEL's study of billed part preference is fatally flawed in several regards. It's presentation only serves to distort information that is currently on the record.

COMPTTEL makes three major errors in its study:

A. It excludes the vast majority of operator-handled calls, despite the fact that the customers making these calls will not only use BPP, but benefit from BPP though

assurance that they are reaching their carrier of choice, and have ubiquitous access to 0+ dialling convenience.

B. It takes as given the cost estimates filed by the LECs, which MCI has shown to be excessive by over 40 percent. It does not attempt to distinguish between relevant and irrelevant costs, and it mistakenly assumes that the filed costs, which are conservative ESTIMATES, are all legitimately tied to the provisioning of only billed party preference.

C. It makes insupportable assumptions regarding the impacts of BPP on the excessive commission payments paid to premise owners.

COMPTTEL excludes the 2 billion calls made by AT&T subscribers at AT&T-subscribed pay and private telephones from any sort of benefit measure of BPP. It also excludes other operator calls as well. This is totally incorrect. First, under BPP, AT&T customers, just like any other company's customers, will benefit from the ability to reach AT&T on a 0+ basis from any telephone, not just those presubscribed to AT&T. Second, excluding these calls is as meaningful as excluding all current AT&T 1+ calls today if one were to evaluate the benefits of equal access and pre-subscription in the 1+ market. All long distance customers, not just non-AT&T customers, have benefitted from the lower prices and increased services that are available today because of the competition fostered under the 1+ presubscription environment.

COMPTTEL takes the filed estimates of the LECs for the costs of deploying BPP as given. In reality these cost estimates are in dispute, and the Commission has not ruled on the appropriateness of any of these costs. MCI believes that these costs have been over-inflated by 40 percent, including items that LECs would normally be deploying to support generic network upgrades and normal traffic growth. Moreover, the LECs have included 100 percent of the software costs to support BPP, despite the fact that this software will be used to support other LEC services.

Based on MCI's estimate of the actual costs of deploying BPP and the actual market demand that would be served by BPP, the per-call costs of BPP should be in the range of 10 cents per call. MCI believes that the 10 cents per call will be offset to the end user by reduced commission payments and price competition that will be focussed on the end user.

C. COMPTTEL erroneously argues that BPP will not cause commission payments to diminish, but rather will change the form in which these payments will occur. First, COMPTTEL states that the FCC will adopt additional compensation for premise owners if BPP is ordered, just as it did when it required premise owners to unblock 950 and 1-800 and 0+10XXX access. COMPTTEL also states that this compensation might be on a per-call basis of 35-50 cents per call. COMPTTEL also alleges that the hospitality industry will assess more surcharges for 0+ calling to make up for the loss of commissions, while institutions will ask for more tax payer funds.

To date the Commission has not addressed whether any compensation will be paid

to premise owners under BPP. To date it has allowed a \$6 per month compensation for dial-around traffic allocated among OSPs on a percentage of revenue basis. It found that because of measurement problems, a per-call charge was not feasible. Whether the hospitality industry introduces new surcharges will be determined by the market conditions in the hospitality industry. What is clear, however, is that carriers will no longer have any incentive to pay large commissions for traffic aggregated by locational monopolists. Rather carriers will focus competitive efforts on the end users of operator services.